

Fiscal Estimate Narratives

DOR 9/12/2003

LRB Number	03-0855/3	Introduction Number	AB-507	Estimate Type	Original
Subject					
Exemption for electricity consumed in manufacturing					

Assumptions Used in Arriving at Fiscal Estimate

Under current law, an income and franchise tax credit is available for sales and use tax paid on purchases of fuel and electricity used in manufacturing tangible personal property. The credit is nonrefundable, but may be carried forward for 15 years for use in offsetting tax liability in those years.

The draft would repeal the credit for sales and use tax paid on fuel and electricity used in manufacturing and replace it with a sales tax exemption for those purchases. Under the draft, no credit could be claimed for sales and use tax paid for taxable years that begin after December 31, 2003. Unused credit carryforward would be available to offset tax liability in future tax years. Fuel and electricity used in manufacturing would be exempt beginning on January 1, 2004.

This estimate assumes that the sales tax exemption would be for the same purchases as are eligible for the income and franchise tax credit. Based on Department data, this provision would reduce tax revenues by \$9 million annually, absent consideration of the unused credit that is carried forward to offset tax liability in future years. Income and franchise tax revenues would increase by an estimated \$22 million and sales tax revenues would decrease by an estimated \$31 million annually.

Approximately \$155 million of unused credit from prior years would continue to be used to offset future tax liability for an estimated seven years at the current rate of usage (up to \$22 million per year).

Local sales taxes would decline as a result of the exemption for fuel and electricity used in manufacturing. Assuming county, ballpark and stadium taxes are 7.27% of state sales taxes, the percentage they were estimated to be in FY02, the local revenue loss would be \$2.25 million (\$31 million x 7.27%).

Long-Range Fiscal Implications

Fiscal Estimate Worksheet - 2003 Session

Detailed Estimate of Annual Fiscal Effect

Original
 Updated
 Corrected
 Supplemental

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Subject			
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I. One-time Costs or Revenue Impacts for State and/or Local Government (do not include in annualized fiscal effect):			
One-time costs of \$155 million resulting from unused credit carried over from prior years that would continue to offset tax liability at approximately \$22 million per year for seven years.			
II. Annualized Costs:		Annualized Fiscal Impact on funds from:	
		Increased Costs	Decreased Costs
A. State Costs by Category			
State Operations - Salaries and Fringes		\$	
(FTE Position Changes)			
State Operations - Other Costs			
Local Assistance			
Aids to Individuals or Organizations			
TOTAL State Costs by Category		\$	\$
B. State Costs by Source of Funds			
GPR			
FED			
PRO/PRS			
SEG/SEG-S			
III. State Revenues - Complete this only when proposal will increase or decrease state revenues (e.g., tax increase, decrease in license fee, etc.)			
		Increased Rev	Decreased Rev
GPR Taxes		\$22,000,000	\$-31,000,000
GPR Earned			
FED			
PRO/PRS			
SEG/SEG-S			
TOTAL State Revenues		\$22,000,000	\$-31,000,000
NET ANNUALIZED FISCAL IMPACT			
		State	Local
NET CHANGE IN COSTS		\$	\$
NET CHANGE IN REVENUE		\$-9,000,000	\$
Agency/Prepared By		Authorized Signature	Date
DOR/ Pamela Walgren (608) 266-7817		Yeang-Eng Braun (608) 266-2700	8/26/2003